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APPENDIX.

ITALIAN FINANCES FROM 1860 TO 1884.*

BY ALANSON BIGELOW HOUGHTON.

THE last quarter-century has seen three great nations — the United States, France, and Italy — both suspend and resume specie payments. The conditions under which each of these countries labored at the time of suspension, their history during the term of the forced currency, and finally the means employed by each to gain a sound financial footing once again, are, from the economic stand-point, of almost equal importance. Yet, while the cases of the two former have been carefully studied and presented, that of Italy has been left by English and American writers practically untouched. The present article is an endeavor to lay before the reader a brief sketch of Italy's financial development since the beginning of the new kingdom, laying special stress on the suspension of specie payments in 1866 and on the resumption seventeen years later, in 1883. It falls naturally into two parts. In the first, after a brief examination of the economic conditions under which the new kingdom of Italy began its existence, an effort is made to present Italy's situation at the time of suspension and to discover in how far, broadly speaking, a forced paper was a necessity. In the second part, a review is first made of Italy's progress from 1866 to 1880;

*The present article was written, for the most part, as a study in Political Economy in Harvard University, during the second half of 1885-1886, and was completed abroad. The writer wishes here to acknowledge his great indebtedness to Professor Dunbar for assistance in its preparation.—A. B. H.

and this is followed by a setting forth of the various measures and means by which, in 1883, the resumption was finally accomplished.

I.

a. DOWN TO 1866.

The kingdom of Italy, covering the whole peninsula except that part under the temporal dominion of the pope and the provinces held by Austria, was proclaimed by law on March 17, 1861. The financial unification, however, was not accomplished until later, when various laws—among them that of August 14, 1862, establishing a Court of Accounts, and that of August 24, 1862, providing for a single monetary system—finally brought the finances into manageable form.

The general condition of Italy at the time of her political consolidation was backward. Her national economic life did not really begin until after 1861; and not until the occupation of Rome in 1870 did political affairs fall finally into the background. Under the administration of the little autocratic governments, agriculture had flourished in a way, but this was all. During the first half of the century, commerce was little more than local. Tolls and duties surrounded each of the many provinces, and served effectually to check any growing commercial activity. The means of communication between the different States, and even within them, were scanty and bad. Lack of confidence in the stability of the governments or of the laws discouraged all commercial undertakings and even the spirit of industrial enterprise seemed wanting. Trade was looked upon as something more or less odious, especially in Southern Italy, where commerce was practically a closed way to the middle classes; and this had its natural effect in crowding the already overcrowded ranks of the "learned" professions.

Later, when the spirit of modern enterprise began to force its way into Italy, its progress was very slow. At the date of the union, not a single State, if we except Piedmont, had made any preparation to meet the changes which the industrial revolution in Europe and America had brought about. Piedmont, it is true, had looked to the future and paid some heed

to the changes going on around her; but, on the other hand, her financial condition was by far the worst among the Italian States. The others had merely drifted along. Their budgets* were necessarily kept within very moderate limits by their small receipts and the undeveloped condition of credit. In 1860, the total savings† in the savings banks amounted to but 157 mil. In all Italy, only four banks‡ had the power of emitting notes payable at sight to the bearer,—one at Turin, one in Florence, another in Parma, and a fourth in Bologna. Naples and Sicily, indeed, had each a note-issuing bank; but these, like the old Bank of Hamburg, merely issued receipts of deposit, which passed from hand to hand when indorsed. As for manufacturing industries, the few that existed were small and badly organized; and capital was shy of embarking in them.

The unification, however, began a new era.§ A general tariff was laid, the vexatious tolls between the different States were abolished, numerous inequalities of taxation and restrictions upon trade were done away with, and a much needed system of internal improvements was entered upon. But every kind of difficulty|| lay in the way, and the work had to go on slowly. The sources of revenue differed in most of the provinces; and, where any were common to all, they were based on different proportions in each. The ground tax,¶ for instance, varied between a minimum of 9 centimes per lira of taxable revenue in Tuscany and a maximum of 19.75 centimes in the Lombard provinces.** Even the multiplicity of systems of money continued, long after their legal abolition, to produce some degree of confusion.

In addition to these difficulties of organization, the new

* *Journal des Économistes*, March, 1884, p. 264. It is curious to remark, so accustomed had the Italians grown to these small expenditures and receipts, that a feeling of surprise and indignation was aroused when, after the unification, it was found that bringing the seven budgets together into one did not decrease the expenditures, but that, on the contrary, a great State had burdens which a smaller one escaped. See also H. v. Treitschke's *Historische und Politische Aufsätze*, Leipzig, 1886, vol. ii. p. 387.

† *Annuario Statistico Italiano*, 1878, Parte II., p. 108.

‡ Cf. C. Baer's *La Question des Banques*, Turin, 1864, pp. 76, 77.

§ *Annuario*, 1862, p. 7.

|| *Ibid.*, p. 8 et seq.

¶ *Ibid.*, p. 20.

** Compare Sachs, *L'Italie*, and Parieu, *Traité des Impôts*, i. pp. 207-209.

kingdom was at once plunged up to its ears in debt. This debt was of two kinds. In the first place, the government had to assume all the debts of its predecessors, taking upon itself the sum total of the obligations which had been contracted by the several parts of the peninsula up to the time of their annexation. This assumption was a fruitful source of trouble, since there was great disparity in the comparative weight of the debts of the different provinces. But by a law* of the 18th of June, 1861, promulgated August 4, this debt† was assumed and unified, creating, when enrolled in the Great Book of the Debt,‡ a total of 111.6 mil. of *rentes*, representing a nominal capital of 2,241 mil. lire. In the second place, a still heavier burden had to be assumed in the establishment of primary schools, in the construction of means of communication,—such as roads, bridges, railroads, telegraphs,—and of certain public works, and in the securing of other necessary instruments of modern civilization. Throughout the entire southern part of Italy, in the papal regions, and in a considerable part of the north, the means of communication were extremely limited. A system of railroads bound together Venice, Milan, Turin, and Bologna, and there were three short lines to the south between Florence and Leghorn, between Rome and Civita Vecchia, and between Naples and some neighboring towns; but, in all,§ in 1859, these made a total of only about 2,000 kilometres.

In 1860, each province had its own budget.|| In 1861, these budgets had been reduced to two,—that of the new kingdom and that of Sicily and Naples. Sicily and the Neapolitan provinces had each a financial bureau, situated in Palermo and in Naples respectively, almost independent of the Minister of Finance. The finances of these two kingdoms were practically under the control of the provisional government; and

* *Bullettino Ufficiale della Ragioneria Generale*, etc., 1883, *Luglio—Dicembre*, pp. 677–699. Cf. V. Ferraris, *Le Leggi sul Debito Pubblico Italiano*, Turin, 1886, pp. 508–532.

† *Annuario*, 1862, p. 28.

‡ *Bullettino Ufficiale*, etc., pp. 669–677.

§ Isidore Sachs, *L'Italie: ses Finances et son Développement Économique*, Paris, 1886, p. 957. Sardinia, 850 kilometres; Tuscany, 257; Lombardy-Venice, 522; Pontifical States, 101; Two Sicilies, 99. Total length, 1,829 kilometres.

|| *Annuario*, 1862, pp. 9–13.

they formed, in reality, separate financial centres. But in October, 1861, the lieutenancy of Naples was suppressed, and in January, 1862, that of Sicily; and thus the budgets of both Naples and Sicily were incorporated into the general budget for the kingdom for 1862. The year 1862, therefore, marks the formal beginning of the modern financial history of Italy.

The budgets just previous to 1862 show the genesis of the budget for the entire kingdom. Beginning with the year 1860, the preliminary estimate* made the receipts† 547.6 mil., the expenditures 608.5 mil., and a deficit of 60.9 mil. lire. This result, however, was more cheerful than accurate. The complete financial situation‡ on the 31st of December, 1860, was: receipts, 456 mil.; expenditures, 830 mil.; deficit, 374 mil.; and, adding to this deficit the deficits left over from preceding years, which amounted to 43 mil., there was a total deficit of 417 mil. This was covered by an appeal to public credit. The old Piedmontese provinces made two loans, of 100 mil. and of 150 mil.; Emilia made a loan of 10 mil.; Tuscany made an emission of 1.5 mil. in 3 per cent. *rentes*; and new *rentes* were created by Naples and Sicily. In all, this amounted to 377 mil. A further sum of 15 mil. was secured by temporary advances, which brought the total up to 392 mil.; and this sum, applied to the budget, left a deficit for 1860 of only 25 mil.

For the year 1861, as has been said, there were two budgets, — one for the new kingdom and one for Sicily and the Neapolitan provinces. The preliminary estimates,§ taking both together, set the receipts at 477.6 mil., the expenditures 853.7 mil., and the deficit 376.1 mil. The actual deficit, however, proved to be much larger. The final figures|| were: receipts, 374 mil. effective and 94 mil. non-effective, making the total 468 mil.; expenditures, 636 mil. and yet remaining 337 mil.; total, 973 mil. The real deficit, then, was 505 mil. To meet this, recourse was had for the first time to direct borrowing by the new kingdom. A loan of 500 mil. was voted by the

* *Annuario*, 1862, p. 368.

† We shall always include under "receipts" both ordinary and extraordinary receipts, and under "expenditures" both ordinary and extraordinary expenditure.

‡ *Annuario*, 1862, pp. 368, 369.

§ *Ibid.*, p. 372.

|| *Ibid.*

Chambers; and in July, 1861, the emission was made in five per cents. at the rate of 70½, the credit of the new kingdom calling out a far larger subscription than was necessary. Bringing the proceeds of this loan into the budget, together with certain Sicilian and Neapolitan *rentes*,* the receipts from loan and *rentes* in 1861 were 345 mil.; and there still remained due on the same 203 mil., or a total of 548 mil. Deducting from this amount the total deficit for the year, 505 mil., and the 15 mil. of advances secured by the State in the preceding year, a nominal surplus of 28 mil. lire was left.

The reasons for so great a deficiency lay on the surface of affairs. In the early part of the year, Francis II. was still fighting, and did not capitulate at Gaëta until the middle of February. Later, great efforts had to be made to put down the brigand bands in Calabria and the Abruzzi. And, finally, the receipts were diminished because the government, for purposes of conciliation, renounced its claims to certain taxes.

We come now to the formal opening of the budgets for the entire kingdom. Recapitulating and, for convenience, bringing the figures† down to 1866, we have the totals, in millions of lire:—

	<i>Receipts.</i>	<i>Expenditures.</i>	<i>Deficits.</i>
1860	456	830	374
1861	468	973	505
1862	480	927	446
1863	524	906	382
1864	576	944	368
1865	646	916	270
Total,	3,150	5,496	2,345
Average,	525	916	391

The preliminary estimates‡ for 1862 put the receipts at 531 mil. and the expenditures at 840 mil., and showed a deficit of 309 mil. In March, however, a change of ministers took place. A new budget became necessary, and Sella, the new Minister of Finance, presented the revised estimates§ in June. According to his plan, the expenses were raised 127 mil.,

* *Annuario*, 1862, p. 372.

† *Annuario*, 1884, pp. 1054-1068. A convenient summarized statement of the budgets from 1862 to 1882 may here be found. Special reference is made to Sachs's *L'Italie*, etc., pp. 1-276; Cucheval-Clarigny's *Les Finances de l'Italie*, Paris, 1886, pp. 1-182; and R. v. Kaufmann's *Das Budget des Königreichs Italiens*, in *Finanz-Archiv*, iii., 1886.

‡ *Annuario*, 1862, p. 324.

§ *Ibid.*, pp. 317-342.

owing largely to increased military and naval expenditures, while the receipts were but slightly increased, so that, all in all, the minister was forced to add 124 mil. to the deficit of 309 mil. in the former budget, which gave a total deficit of 433 mil. Sella proposed* to meet this as follows: About 50 mil. from taxes and some Sicilian *rentes* were at his disposal, to start with. Certain railroads in course of construction were to be conveyed to private parties, these parties being secured by a guarantee; and a privilege of canal construction was to be ceded to a company which should buy for 20 mil. the existing canals. These measures would bring the deficit to 325 mil., and an emission of 100 mil. of treasury bonds would reduce it still further to 225 mil. This sum could be raised by the sale of those domanial lands which served no public use, and of those church estates which had passed to the domain; only, in return for these latter, a revenue in *rentes*, equal to their yearly income, would have to be given the ecclesiastical bureau, in whose charge they were. Finally, the minister asked to be allowed to sell 100 mil. additional treasury bonds in anticipation of the sale of the domanial lands. These were the leading provisions of the plan, and they were finally adopted. If we add that an actual deficit of about 320 mil. was brought over from 1861, of which we have taken no account, it is evident that the year 1862 left the finances in a state where bankruptcy seemed almost at the door.

Sella was succeeded by Minghetti in December, 1862. Minghetti was the financial optimist of his day; but, in presenting his estimates on the 14th of February, 1863, he was forced to declare that the financial situation dominated everything else, and that even political questions must be subordinated to it. In the estimates† for 1863, the receipts stood at 608 mil. and the expenditures at 962 mil., and a deficit was shown of 354 mil. To this sum, however, must be added, first the interest on a new loan‡ of 700 mil., which the minister proposed to make, bringing the amount up to 400 mil., and then the

* *Annuario*, 1862, pp. 330-342. † *Ibid*, 1863, pp. 387-417.

‡ *Le Cr dit Public en Italie et l'Emprunt de 1863*. Par E. de Choisy. Turin, 1863.

deficits left over from 1862, some 375 mil., the total deficit thus amounting to 775 mil. In spite of this appalling amount, Minghetti was hopeful, and brought forward a scheme for doing away with the deficits entirely after four years. His plan rested on a distinction between the ordinary and extraordinary budgets. The extraordinary deficits were not to be allowed to exceed 100 mil. per year. The ordinary deficits were to be reduced, in 1863 to 220 mil., in 1864 to 165 mil., in 1865 to 110 mil., in 1866 to 65 mil., so that, at the same rate of progress, in 1867 a balance would be obtained. The ground was cleared for this movement by reforms, which cut down the expenses 100 mil. for the year, and raised the taxes so as to increase the receipts 115 mil. If these proposals were accepted, affairs would stand as follows: deficit to January 1, 1863, 375 mil.; deficits from 1863 to 1866, 550 mil.; extraordinary deficits, 400 mil.; or, in all, 1,325 mil. This sum was to be met, first of all, by a loan of 700 mil. Then, by the sale of the domanial lands, a sum of 218 mil. and, from the church estates, 222 mil. more could be raised. The remainder would be secured by increasing the amount of treasury bonds in circulation from 150 mil. to 300 mil. This would give a total of about 1,300 mil., and practically ensure the balance so long sought for. Minghetti's optimism proved contagious, the plan was adopted, and the loan* was decreed. The first emission of 500 mil. at five per cent., at a rate of 71, was made in March; and the second emission of 200 mil., at a little better than 68, followed in December. But the very next year was sufficient to overturn this fairylike creation of Minghetti's brain.

When the budget for 1864 was first presented, it showed a deficit of 255 mil., the estimated receipts being 672 mil. and the expenditures 927 mil. But late in the year political changes brought Sella into office again. In November, he presented his estimates,† and declared that the deficit would come, not to 255 mil., but to 316 mil. The taxes had yielded less than estimated, the loan was not thoroughly successful, the sale of the public lands fell short, and certain items of expense had to be increased. The situation demanded heroic

* *Vide* p. 239.

† *Annuario*, 1865, pp 413 *et seq*

treatment, and received it. An issue of 50 mil. in treasury bonds and an estimated sum in the treasury of 66 mil. from taxes and other sources made 116 mil. This left 200 mil. yet wanting. From the sale of the domanial lands, 40 mil. could be expected. An anticipation of the ground tax for 1865, which was fixed at 121 mil., and a further issue of treasury bonds would make up the balance. Taxes were once more increased. The price of tobacco was raised one-third, and the price of salt was increased 10 lire per 100 kilos. The Crown gave up 3 mil. of its dotation.

But all in vain. To try to fill these dreadful deficits seemed like pouring money into a bottomless hole. When the budget* for 1865 was presented, there was another deficit of 208 mil., the receipts being put at 669 mil., and the expenditures at 817 mil. To this, moreover, had to be added from former deficits left over a sum of 317 mil., which gave a total of 525 mil. Sella faced the dismal prospect boldly. He agreed to bring in a budget for 1866 with a deficit not to exceed 100 mil., and adding this 100 mil. to the deficit for the year gave an aggregate of 625 mil. This sum he proposed to meet by a loan of 425 mil., and by the sale of the State railroads, which would yield 200 mil. more. In addition to these measures, certain changes would still further increase the taxes. The proposals were accepted; and the loan of 425 mil. was duly made at a nominal rate of 66, or, deducting expenses, at 63.44, which, considering the circumstances, was gratifyingly high.

This brings us down to the beginning of 1866, when affairs finally reached their climax. How great the strain had been one can hardly overestimate. The tax-yields† tell us something of it. These were in 1861 458 mil., in 1862 471 mil., in 1863 511 mil., in 1864 565 mil., and in 1865 637 mil. This shows an increase of 45 per cent., which, when we consider that Italy was by no means rich, is something enormous. We have seen that the new kingdom began its existence with a nominal debt of 2,300 mil., and an annual interest charge of 112 mil. In the years 1860-65 there had been an aggregate deficit of 2,350 mil., and an average yearly deficit of 391 mil.

* *Annuario*, 1865, pp. 451-492.

† *Annuario Statistico Italiano*, 1878, Parte I., pp. 144, 145.

To cover this, loans yielding nearly 1,700 mil. had been contracted; and these, at the market rate, amounted to 2,500 mil. of nominal debt, with 125 mil. annual interest. It was true that the receipts had steadily grown larger, but this was due almost entirely to the increase of the taxes from year to year. And if, on the other hand, there had been a slight though intermittent fall in the expenditures, yet in 1865, when the deficit touched its minimum, it amounted to some 40 per cent. of the gross receipts. Even this unfavorable showing had been reached only by the most strenuous efforts; for, to say nothing of the increase of the taxes, enormous loans had been contracted, and the domains and the State railroads were being sold.

One further point demands our attention before we pass on to consider the events of 1866. The foreign trade during these years exhibited a considerable loss, and one continually greater year by year. The following table* gives a statement of the special commerce; that is to say, of the amount of goods imported for actual consumption, and the amount of domestic goods exported. The figures are in millions of lire:

	<i>Imports.</i>	<i>Exports.</i>	<i>Difference.</i>
1862	830 0	577.5	252 6
1863	902 2	633.9	268 3
1864	983.8	573 5	410.3
1865	965 2	558.3	406.9
Total,	3,681.2	2,343.2	1,338.2
Average,	920.3	585.8	334 5

We see here an increasing importation and a decreasing exportation. These figures are important as an index of Italy's condition. Italy was now in a position where her budgets exhibited a steady and strong deficit, necessitating continuous borrowing from abroad, and where the foreign trade went directly against her.

The sum† of specie in circulation is supposed to have ranged about 1,000 mil., although, of course, this amount was subject to frequent fluctuations. How, then, were the gold and silver kept from going out of Italy? The answer

* *Annuario Statistico Italiano*, 1878, Parte II., p. 34.

† *Vide Journal des Économistes*, February, 1874, p. 221; Conrad's *Jahrbücher für Nationalökonomie und Statistik*, 1881, pp. 529, 530.

to this lies in the fact of the heavy loans which Italy made during these years, by which specie was continually brought into the country. These loans,* as we have already seen, were:—

<i>Date.</i>	<i>Rente.</i>	<i>Nominal capital.</i>	<i>Price of emission.</i>	<i>Net product.</i>
11 October, 1859	6.1 mil.	122.0 mil.	80%	95.1 mil.
12 July, 1860	9.3	186.4	80½	146.7
17 July, 1861	35.7	714.9	70½	496.9
11 March, 1863	35.7	714.3	71	493.8
13 December, 1863	15.0	300.0	68	197.5
19 January, 1865	.7	14.3	65½	9.1
11 March, 1865	33.0	660.0	66	448.4

These loans were the real ground of Italy's ability to hold her gold and silver. Still, it is hardly necessary to point out that such a means of continuing on a specie basis could at best be only a temporary affair. Borrowing could not go on forever. And it was evident that, unless the condition of Italy's finances underwent some great change, her credit must soon come to a dangerous crisis.

b. THE SUSPENSION.

Late in 1865, Sella presented the estimates † for the following year. Again there was a deficit. The receipts were estimated at 668 mil., the expenditures at 933 mil., and the deficit at 265 mil. This was to be met in part by stricter economy, which would yield 30 mil., and by additional taxation, which would yield 140 mil. more. The minister undertook to meet the 100 mil. remaining by a decisive move. He proposed the suppression of the religious corporations and the conversion of their patrimonies to the use of the State. The morality of such a measure was decidedly questionable. Even in politics there is left a prejudice against taking somebody else's property merely because it happens to be needed. But the measure would more than supply the sum required, and the State had undeniably fallen into desperate straits. In this form, however, the budget was not definitely acted upon. Sella found himself in difficulty because of the desire to impose the unpopular grist-tax (*macinato*), and was succeeded by Scialoja; and a new budget was brought forward. Scialoja based his estimates ‡ on the former budget, and accepted the

* *Storia della Finanza Italiana dal 1864 al 1868.* R. Bonghi. Firenze, 1868.

† *Annuario*, 1866, pp. 463-496.

‡ *Ibid.*, pp. 497-528.

deficit, as before, as 265 mil. To meet this, he proposed to make economies in the War Department — strangely enough in view of after events — amounting to 30 mil. and in the other departments amounting to 25 mil. This would reduce the deficit to 210 mil. By a reorganization of the direct tax, and by the imposition of further taxation, not including the grist-tax, he hoped to bring the deficit down to 85 mil. To cover this latter sum, he repeated Sella's proposition concerning the religious corporations. The plan was sharply attacked, but finally was accepted. Later, towards the end of February and early in March, it became evident, in view of approaching events, that these plans would not be sufficient. Opposition in the Chamber made the ministry weak, and the financial estimates did not yield the hoped for result. In March, there were negotiations for a loan* of 250 mil. between the minister and a number of Italian credit establishments. These agreed at first to float the loan, although there was much popular objection to the arrangement. But in the beginning of April, owing probably to the severity of the crisis then prevailing, notably in England, and to the uncertain outlook, they were compelled to withdraw their offer, and leave the government to its own resources.

The uncertain outlook referred to was, of course, the prospect of war. Early in April, the political horizon began to darken rapidly. Prussia and Austria were on the point of declaring war; and every Italian saw that Italy, in such an event, without alliance, might find her national existence imperilled. Later, the political situation grew easier. On the 8th of April, the terms of a treaty with Prussia were settled, and ratified by Italy on the 14th and by the King of Prussia on the 20th of the same month. But affairs finally reached a climax on the 30th of April, when the Italian Parliament voted unanimously a declaration of war against Austria.

On the following day, May 1, 1866, the minister decreed the *corso forzoso*. A forced circulation was given to the notes of the National Bank of the Kingdom, and to the notes of the Bank of Sicily and of the Bank of Naples, in Sicily and in the Neapolitan provinces respectively. At the same time, the

* *Inchiesta sul Corso Forzoso*, 1868, Scialoja's testimony, vol. iii. p. 464.

National Bank advanced to the government a loan of 250 mil. for the purpose of carrying on the war. Later in the month, the forced circulation was further extended to the notes of the National Bank of Tuscany and of the Tuscan Bank of Credit within the Tuscan provinces.

The circulation on the 30th of April was composed of both paper and specie. The paper* amounted only to some 249 mil., issued by the various banks. The sum of the specie in circulation amounted to 903.5 mil., made up of 430.5 mil. in gold and 473 mil. in silver and base money. Of the gold, 419.5 mil. was in decimal coin, and the remainder, 11 mil., in other forms. The silver, amounting to 423 mil., was divided into 86 mil. in 5 fr. pieces, 119.5 mil. in pieces ranging downwards from 5 fr., and 217.5 mil. in non-decimal forms. The bronze and the brass money amounted to 44 mil.; and, finally, the base money of all denominations—none greater than 1 fr.—was valued at 6 mil. A deduction, however, must be made. Some 15 mil. of bronze money in excess of the needs of the circulation lay idle in the treasury. Deducting this 15 mil. of bronze, we have, as a final result, 888.5 mil., the total specie circulation. The circulation, both specie and paper, then, on April 30, 1866, was 1,137.5 mil. lire.

Whether or no the forced currency was necessary has never been fully settled. In 1868, a Committee of Inquiry† was appointed by the Italian Parliament, which investigated the causes leading up to the suspension; and, after a laborious and painstaking investigation, a majority of this committee reported that the forced currency was *not* demanded on either financial or political grounds or by the economic interests of the country. This report, however, did not remove all doubt. The decision seemed to be in the face of facts, as it was against the overwhelming belief of the Italian people, and later writers have been inclined to deny its soundness. The

* Cf. *Annuario Statistico Italiano*, 1878, Parte II., p. 122. And see *Relazione sulla Circolazione Cartacea* (by Minghetti and Finali, 1875), p. 10.

† The committee was composed of MM. Seismit-Doda, Cordova, Alexandre Rossi, Sella, Messedaglia, Lampertico, and Lualdi. The majority who reported adversely to the action of the minister were Cordova, Lualdi, Rossi, and Seismit-Doda. The minority declared any investigation as to the necessity of the forced currency to be beyond the province of the committee.

question, therefore, is an open one ; and, although this article can obviously make no pretence to any exhaustive examination of it, still it is of such peculiar importance to the right understanding of the subsequent financial history of Italy that we must enter into it with some fulness.

The condition of the treasury on April 20, 1866, according to the report* of Alfurno, Director-General, was as follows :—

1. Actual cash	28.0 mil.
2. Notes of the National Bank and of the Tuscan National Bank and certificates of the Bank of Naples	68.0
3. Bronze coin	15.3
4. Credits on foreign banks	1.5
Total	112.8 mil.
Deducting as before the 15 mil. in bronze coin and 2 mil. due to the Bank of Sicily	17.0
Total	95.8 mil.

So far as the needs of the treasury were concerned, the director declared, this amount would probably be sufficient for all service until the middle of the year. For the July quarter of *rentes*, about 100 mil., provision had already been made. Funds had been secured to the amount of 57.6 mil. by stipulating an advance from Rothschild as an instalment on the loan of 425 mil. (May, 1865), to the amount of 25 mil. by agreement with the Savings Bank of Milan for an instalment on the price of the State railways, and to the remaining amount of 15 mil. by two loans,—one of 10 mil. from the Bank of Naples and one of 5 mil. from the Bank of Sicily. About 80 mil. of treasury bonds were to fall due in May and June. The director counted on the ordinary renewal of 10 mil. per month, while, in addition, a renewal of 15 mil. at 3 per cent. had been secured from the Bank of Naples. Still, this would leave 45 mil. of these bonds to be provided for, of which 30 mil. were held by the National Bank. The cash fund was therefore still further reduced from 95 mil. to 50 mil. Account being taken of the customary delay in payment, due to the tardy presentation of the coupons, this sum of 50 mil. would probably be sufficient for the ordinary needs of the treasury. But it would only be sufficient, provided everything went well. If, by chance, events were so to turn that unfore-

* *Inchiesta*, etc., testimony of the Director-General, vol. II. p. 19.

seen expenditures were rendered necessary, these calculations would have to be changed.

During the ten days from April 20 to April 30, the effective cash in the treasury went down from 28 mil. to less than 24 mil., and the amount of notes held of the several banks diminished from 68 mil. to 50 mil.

To describe the economic condition of Italy at this time is extremely difficult. So many elements enter into it, and these mixed in such confusion, that to give any precise estimate of the strain endured by Italy just previous to the suspension is well-nigh impossible. Perhaps, however, if we go back a little, and try to follow down the general drift of events, we may be able to get before us some sufficient idea. We have seen that not only did Italy have continuous deficits in the budgets, necessitating enormous loans from abroad, but that the foreign trade was largely against her. Obviously, as we have said, such a condition of affairs would tend to produce a demand on Italy for gold. This may be taken as a starting-point for our review of the general movement.

(a) For at least two years, *rente* had been coming back into Italy freely, for the reason, among others, that it was higher there than abroad. This was shown, for instance, by the fact that as early as January 12, 1865, the pressure had grown so strong that the National Bank of the Kingdom, by far the most important financial institution in Italy, was forced to restrict its advances* on the deposit of securities as collateral. As the year 1865 went on, credit grew rapidly worse, and a crisis swept over Europe; and, at the beginning of 1866, the rate of discount was standing at 5 in the Bank of France, and at 8 in the Bank of England. In Italy, this crisis was, of course, severely felt. The strain on the National Bank, as the leading credit institution in the kingdom, had become so great that its specie reserves began to be seriously affected; and, early in 1866, it was forced to secure two loans of 2 mil. each in gold, in order to keep up its payments, and these it secured with difficulty. Finally, on January 10, 1866, it sharply restricted its discounts, and refused to advance on

* *Relazione sulla Circolazione Cartacea*, p. 6.

paper not bearing at least three names. The contraction was already stringent; but this action served to intensify the difficulty, for not only was it almost tantamount to a refusal of credit to commerce, but, owing to the fact that numerous lesser banks were accustomed to have paper rediscounted at the National Bank, a refusal to do this at a time when they were already hard pressed left them in a precarious position.

(b) Into this general state of affairs in January came a new disturbing element, the fear of immediate war. The loans which Italy had made had vastly increased her indebtedness abroad, as the following figures, showing the foreign payments* for interest by the State from year to year, will indicate:—

1861	. . .	36 mil. lire
1862	. . .	55 “
1863	. . .	60 “

1864	. . .	89 mil. lire
1865	. . .	90 “

Rente † was now rapidly falling. It had ranged at about 65 during the year 1865; but in February, 1866, it had fallen to 61, and timid foreign holders, recognizing the straits in which the Italian government was laboring, and the near approach of war, were returning *rente* to the Italian market, in order to realize. The director of the National Bank expressly declared ‡ to the Committee of Inquiry, and his declaration was agreed to by the four other great banks,—the National Bank of Tuscany, the Tuscan Credit Bank, the Bank of Naples, and the Bank of Sicily,—that at this time foreign bankers no longer kept Italian paper in their portfolios, having foreseen the probable suspension, but were sending it back into Italy to be sold at a loss, and that in April, 1866, Italian bonds could not be negotiated abroad. This return movement undeniably produced a considerable effect in Italy, particularly in the great cities of the north. Still, its influence was nothing extraordinary, as is sometimes maintained. The country was not flooded with returning *rente* and bills. The rate of exchange § just prior to the suspension, which was 1 $\frac{4}{6}$ below par on Paris, and on London 24.80 (par 25.22), shows clearly that the amount of paper sent back was not excessive.

* *Relazione*, p. 5.

† *Annuario*, 1884, Table XIII.

‡ *Inchiesta*, etc., vol. i. p. 292, testimony of the Director of the National Bank.

§ *Ibid.*, vol. iii. p. 50.

(c) But the contraction of credit visible in January grew little, if any, easier as the days went on. The National Bank found its restrictions insufficient, and later, in March and April, was forced to suspend its advances and discounts almost entirely. This left commerce in a desperate state. A heavy pressure existed on all the banks, caused by the steady withdrawal of deposits and the effort to change notes into gold. For instance, the following table* of the five principal banks in the kingdom shows a strong falling off in deposits and running accounts:—

	Dec. 31, 1865.	April 30, 1866.
National Bank,	18.2	24.7
National Tuscan Bank,	10.9	8.1
Bank of Naples,	48.9	35.8
Bank of Sicily,	18.2	17.2
Tuscan Bank of Credit,	2.2	1.6
	<hr/> 98.4	<hr/> 87.4

The increase in the figures of the National Bank is to be accounted for by the fact that funds taken from the smaller banks were put there for greater security. But a falling off of 11 mil. in a total of 98 mil. within four months is certainly an evidence of poor credit conditions. The change is even more striking, if, on account of its peculiar position, we omit the National Bank in our reckoning; for we then have a total for the remaining banks, on December 31, 1865, of 80.2 mil. as against a total of 62.6 mil. on April 30, 1866, or a loss within four months of 17.6 mil.

(d) In addition to what we have just described as a general crisis, there now came what may be called a special crisis. The great contraction of credits everywhere, and the flow of *rentes* and bills back into Italy, together with the restrictions of the National Bank on its discounts and advances, began to shake the position of some of the large credit banks, particularly in Turin and Genoa. The *Credito Mobiliare*, for instance, in Turin saw its running accounts† at interest fall to about one-third in four months: 1866, January, 22.8 mil.; February, 21.7 mil.; March, 20.8 mil.; April, 15.8 mil.; May, 8.5 mil. One notes at once that the decrease of 7 mil. from January to May is equal to the increase shown above in the accounts of

* *Inchiesta*, etc., vol. i. p. 294.

† *Ibid.*, vol. i. p. 295.

the National Bank during the same period. All banks dealing in commercial paper of any sort were hard pushed. Those, however, which had been accustomed to rely on the National Bank were in a doubly unfortunate position, for this latter institution could now no more than take care of itself.

(e) The contraction grew more and more stringent. On April 18, the Chamber of Commerce at Alexandria advised* that the National Bank enlarge its discounts; but this, under the circumstances, was impossible. At the end of April, the climax † was in sight. On April 27 and 28, the *Credito Mobiliare* of Milan and that of Florence, the *Banco di Sconto* in Turin, and other similar institutions, were violently assailed by the public. On April 29 and 30, letters and telegrams were received by the Minister of Finance from Genoa, announcing colossal failures in that city unless the government should adopt extraordinary measures for the relief of the banks and the protection of their specie reserves. A peculiar importance, it should be said, attaches to these events, in that the commerce of Italy centres mainly around a few large cities in the north, and that it was just here, in the worst possible place, that the special trouble existed. And in the already gloomy and depressed state of trade, and with a war almost at the door, there could be no knowledge where the failures, once begun, would end, or how far-reaching would be their financial and moral effects.

This, briefly stated, was the position of affairs on April 30, 1866, when the war was declared.

From the minister's point of view,‡ the situation left little room for doubt. It was true, indeed, as Scialoja declared to the Committee of Inquiry, that the payment of the July quarter of *rente* was assured;§ but there then remained in the Treasury but 95.8, of which only 28 mil. was in specie. As to further resources, everything was discounted except certain taxes whose amount for the current year could not be immediately recovered. Leaving aside all question concerning 195

* *Inchiesta*, etc., vol. ii. p. 25.

† *Ibid.*, vol. ii. p. 39 *et seq.*

‡ *Ibid.*, vol. iii., Scialoja's testimony, pp. 464-472.

§ *Ibid.*, vol. ii. pp. 20, 21.

mil. of treasury bonds which were in circulation,—of these, 80 mil. falling due in May and June,—he estimated that the war with Austria would call for 600 mil., and that the government needed 300 mil. more. Here, then, was a need for 900 mil. in the presence of a cash balance of 95.8 mil. at the outside. A loan was out of the question; for the loan of 250 mil. which the government had tried to make in March had proved impossible, and things were far worse now. No encouragement could be drawn from the public. During April, the crisis had grown almost hourly more intense. Foreign merchants refused to give credit, and were sending in their demands to be collected at any price. In the general panic, information came of the imminence of failures of the highest importance, if certain banking houses were not protected. What could the minister do, with Italy unable to borrow, industry calling for help, and a great war, involving the national existence, to be fought? One obvious way out of all these difficulties was still open, and the culmination of events left no choice but to take it. On April 30, Parliament voted with but one dissenting voice to give the minister power to take extraordinary means to carry on the war; and on May 1 the forced currency was decreed. The public received the announcement with satisfaction, and the Chambers of Commerce of Florence and Genoa voted thanks to the minister.

From the point of view of the Committee of Inquiry in 1868, the situation presented a far different aspect. Obviously, the treasury was not insolvent, and therefore did not need the *corso forzoso*. As to the economic conditions of the country, the committee declared that the general crisis was lighter, or at least was no more severe in April than in January; that the amount of the returning *rente* and bills, when compared with the total amount, was insignificant; and that the special crisis was due to but *four* banks, whose difficulties were owing mainly to their own mismanagement. After this summary disposal of the salient facts, the committee naturally concluded that the forced currency was not demanded on economic grounds. The one point remained, then, how to find money for the war. This was easily done. The days just before the war were days of extraordinary enthusiasm and great patriotic

fervor, when party disappeared, and all men were alike eager for a struggle that would free Venetia from Austrian tyranny and consummate Italian unity. These pleasing emotions, the committee thought, should have been turned to practical account. Either a voluntary loan should have been made for the support of the war, or, if such a loan seemed likely to prove unsuccessful, then a forced loan should have been levied on the better provided classes.

Both of these views, so far as they concern the economic situation of the country, are unquestionably exaggerated. The minister undoubtedly overestimated the amount of panic prevailing, and the committee undoubtedly underestimated it. The truth lies, as our statement has tried to show, somewhere between the two.

We have already said that we do not propose here to make any attempt to answer definitely the question whether or not the forced currency was a necessity. Such an attempt lies obviously far beyond the necessary limitations of this article. We may, however, obtain a much sharper view of the problem, if we examine it in the light of the means proposed for its solution. What were the real facts of the situation, so far as we know them? They were these: *first*, the position of the treasury was solvent, but it could do little more than care for its ordinary daily needs; *second*, a severe contraction of credit existed, owing to a general crisis, which was more or less intensified by the returning *rente* and bills; *third*, a special crisis of some magnitude existed in the very heart of commercial Italy; and, *fourth*, a war had just been declared which would demand at least 600 mil. for its support. Now, let us further ask, How, given these data, could the sum required for the war best be secured? Since a foreign loan was admittedly impossible,—*rente** stood at 43.90 in Turin on the day before the suspension,—there were but two ways left: either to declare the *corso forzoso* or to rely upon a loan, voluntary or forced. The advantages of the forced currency are obvious, and also the disadvantages. We need attempt no particular

**Relazione sulla Circolazione Cartacea*, p. 8, and see diagram, *ibid.*, p. 220, for movement of exchange, five per cents. and gold, 1866-75.

elaboration of the one or of the other. There could be but one reason sufficient to justify its introduction, and that of a negative sort; namely, that the other means proposed seemed unavailable. So far, therefore, as an examination of the question is possible for us here, our problem will lie in the consideration of the voluntary and of the forced loan.

We may simplify the inquiry still further by putting out of mind any thought of a voluntary loan. Italy may indeed have been half-mad with enthusiasm; but enthusiastic patriotism is a feeling widely separated from pocket patriotism. Without doubting for a moment the sincerity and depth of the patriotic feelings of the Italians, we have no reason to believe that a voluntary loan would have yielded any appreciable amount of money. Voluntary loans are seldom, if ever, successful. There have probably been few populations so stirred to the depths as the German in the beginning of the war of 1870-71. Yet the German voluntary loan yielded only a few hundred thalers! We will go on the supposition, therefore, that a choice existed only between the *corso forzoso* and relying upon a forced loan.

The main objections against relying upon a forced loan sum themselves up in the present writer's mind to three in number, together with a preliminary difficulty. These are: *first*, the strong chance that the forced currency must be decreed under any circumstances; *second*, the probability that a forced loan would prove insufficient; and, *third*, the serious risks that were necessarily involved in a forced loan. We will touch upon these very briefly in order.

The preliminary difficulty lay in the collection of the forced loan. To say nothing of the fact that it must be raised from a country which was in a half-panic condition and taken from a people whose taxes had almost doubled in five years, the returns from such a loan would require considerable time for collection,—at least, the fifteen days required in an anticipation of the ground tax. This delay was inevitable, and it involved the objection that the minister could feel no certainty that either the war or the panic would wait until he was ready to receive them. Still, we may pass over this difficulty with a mere mention; for it was of little weight when compared with the other considerations.

The first objection urged was that a strong chance existed that the suspension would have come under any circumstances, even though it had not been directly necessitated by the war. For consider what Italy's general movement had been. Italy began her national career with a debt of 2,300 mil., and in the first five years of her existence, in spite of the most desperate efforts, was forced to double this by the addition of 2,500 mil. more of nominal debt from loans. The foreign trade during all these years had been moving strongly against her. Lanza, a leading deputy in the Italian Parliament, declared* to the Committee of Inquiry that the causes of the suspension were clearly in operation as far back as 1861. Affairs, however, had grown worse and worse. If a forced currency seemed to be coming in 1864, certainly it must have been close at hand in 1866, when, under conditions infinitely more severe, with a treasury unable to do more than barely care for its own needs, there came an imperative demand for 600 mil. for the war. But whether it was necessary or not is not here the point. All that is here called to view is that the general movement had been rapidly downwards. If we omit the other considerations, a country which lives on foreign loans, secured only by the payment of a high premium, is surely generating the necessity of a forced currency. There could be but one reason sufficient to justify ignoring this obvious tendency; and this would lie in the hope that, if the war were struggled through with somehow, without recourse to a forced paper, Italy after the war could continue to hold a specie basis. Certainly, we have reasonable ground for doubting this. A successful war would undeniably bring its benefits. The long struggle with Austria would be at an end, and Venetia would be united with the new kingdom. But these benefits, financially speaking, could not be realized for years to come. So far as any immediate financial change was concerned, little could be expected but a repetition of the old story of deficits and loans, and an unfavorable foreign trade. If Italy before the war, and even before the fear of war, was moving steadily and rapidly towards suspension, there was little reason for hope that Italy, after the war was done, loaded down with new burdens and

* *Inchiesta*, etc., vol. iii p. 135.

perhaps impoverished, would be in any better situation. On the contrary, the new debt and the burdens of the war would leave the country worse off than before. Every element which had been making towards suspension before the war would have been making towards it afterwards with added strength.

The truth of this may be seen by the actual facts. Italy's finances showed little, if any, improvement for at least three or four years. As it was, with a war favorable beyond expectation and short beyond hope, the budget deficits until 1870 grew but little smaller, and this in spite of every exertion, in spite of rigid economy, and in spite of the most severe taxation,—taxation touching almost every article that entered into either the essentials or the enjoyments of the people, bread, meat, salt, fruits, tobacco. Not until the year of the occupation of Rome (1870) did Italy begin positively to forge ahead. And the real cause of this new progress lay primarily, in the writer's view, not in Italy at all. It lay rather in the speculation and in the demand for investment brought about by the Franco-Prussian war and the after payment of the French indemnity. A species of hot-house growth of credit and industry was caused, which, disastrous to other countries, was yet, owing to Italy's peculiar conditions, on the whole both advantageous and healthful for her. The current of events before 1866, then, was unquestionably sweeping Italy towards suspension. There could have been little reason, at least at the time when the suspension was decreed, to believe that this current would change its course. Affairs had to grow worse before they could grow better; and, on the whole, we may perhaps not unreasonably conclude that, so far as could then be seen, even if the war did not directly necessitate a forced paper, this must probably have been Italy's destiny in the end.

We pass now to the second objection. Apart from the general drift of affairs, there was a strong probability that the forced currency would be rendered necessary by the utter insufficiency of the forced loan to carry on the war. Of course, the war was surprisingly short. Austria's military strength was rated second only to that of France. No one even dreamed that the struggle would last but six weeks; and, indeed, if before the war, when Prussia's military strength

was a practically unknown factor, any one had prophesied so speedy a termination, his words would have seemed mere nonsense. The whole question of victory or defeat lay in the doubtful strength of Prussia, for all that Italy could do at best was to make as large as possible the number of Austrians required to give her a sound drubbing. If now, as at the time seemed so likely, the war were either disastrous or prolonged,—if, for instance, Austria could have held Prussia at bay, so that her army after the victory at Custozza and her fleet after the victory at Lissa could have overwhelmed Italy in a war which, for existence's sake, Italy must yet fight to the bitter end,—would one forced loan, or two, or three, have been sufficient to enable Italy to continue such a struggle? Obviously not. As it was, the war, though so unexpectedly short, cost * some 870 mil. lire. It is doubtful if more than one forced loan could have been successfully made. Certainly, in view of Italy's position, a long war could not be fought through on loans alone. How, then, could the expenses have been met? There is but one answer. If the war were prolonged, the forced currency must be declared.

Both of these considerations deserve careful attention, although they do not directly touch the real root of the problem. We seize this when, in the third place, we come to consider the serious risks connected with a forced loan in view of the economic situation of the country. Reliance upon a forced loan meant that the Government would do nothing to ease credit or to lighten the existing strain, and that it would leave to their fate the banks which were calling for aid. This was a very grave matter. There are three points in the economic situation to be considered. We know, first, that credit was in general severely strained, that every measure the National Bank had taken looking towards its own safety had made the distressed situation of commerce more precarious, that the already strong demand for gold was being increased by the need of the Government, on the verge of war, to make purchases in specie, and that the sinking of deposits and running accounts showed an actual feeling of panic. We know, second, that, if certain credit banks were not supported, their failure was inevitable, that with them would go down the

* Sachs, *L'Italie*, p. 50.

interests dependent on them, and that, from their position in the very heart of Italy's industrial life, their failure might have crippled industrial and commercial interests throughout the peninsula. In itself, however, neither of these considerations is strong enough to call for a suspension; but it was the introduction of a third element which gave them their vital importance. This new factor was simply this: that, after the panic had had full play, the war had still to be fought and the money for its support had still to be raised. In a time of peace, the situation would have been grave enough to rouse deep apprehension. But, if the forced loan were made the chief reliance before the war had even begun, commercial interests, if not prostrated, would at least be severely crippled, while the expenses of the war would be left entirely unprovided for.

So far then as the question was one of temporary expediency, there was little room for doubt. A forced currency would tide the State and the banks, together with the people, over their present difficulties, and would send Italy into the war free from any danger of ruin going on at home. Further, the suspension would protect the specie. Italy could not afford to be stripped of the precious metals; but a disastrous or a prolonged war would have swept the gold out of Italy as leaves are blown before a storm. Beyond doubt, if there was any immediate prospect of the *corso forzoso*, it was wiser to decree it then, when it would save the country from danger of commercial disaster, when it would give the Government instant means for carrying on the war, and when, by protecting the specie, it would leave Italy in the end in an easier position. So far as the question was one of a broader expediency, looking beyond the temporary distress to the future, perhaps quite as much may be said. First of all, there was the strong doubt whether Italy could hold to the specie basis under any circumstances. Then there were the multifold considerations to the effect that Italy was in too distressed a condition to sacrifice anything for the future, and that the burden of a forced paper, even though ultimately heavier, could be easier borne than the present burden, since the effort would be extended over a long period,—and there is something to be said concerning

the intensity of a financial strain as well as concerning its duration. Finally, it is right to mention the view of those, like Scialoja, who believed, contrary to what proved to be the case, that, if once this vital crisis were tided over by means of the forced currency, Italy could rapidly put herself again on a specie basis, and be but little the worse.

So much, then, for a statement of Italy's position and prospects on the day of suspension. The subject, though accurately, has yet from necessity been too vaguely handled to enable us to draw any legitimate conclusion from what has been said. The view of the present writer, however, may perhaps be given; and it is this,—(a) that, in any absolute sense, the suspension was not necessary. Italy could probably have gone through the war and found herself at the end without a paper currency. Such a conclusion, however, is barren and of little value, for our question is not one of necessity nor of what from the stand-point of after events appears reasonable, but solely what at the time seemed most expedient for the best interests of the country. (b) That, in any broad sense, the suspension was the wiser course. Taking into consideration the general movement and prospects of Italy, the question of the war, and the distressed economic situation, the conclusion that a forced currency was demanded seems a natural one. Undoubtedly, it would have been better if some way not involving long-continued loss could have been found. Undoubtedly, it is hard to be obliged to discount the future. But the desperate conditions actually existed. There was only a choice between evils. The choice does not seem to have been made lightly; and, in the view of the present writer at least, it was made of the lesser evil. Still, when all has been said, the question is an open one; and such it will probably remain.